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### Featured Q&A With Our Board of Advisors

**Q** Bolivia, Guyana, Honduras, and Nicaragua are among 18 poor countries worldwide whose multilateral debt was forgiven as part of a deal announced by the Group of Eight wealthy nations on Saturday. How much will the multilateral debt cancellation help the four Latin American countries? Will it realistically contribute to a trend of more sustainable borrowing within the context of responsible economic policy?

**A** **Guest Comment: Jose Luis Machinea:** "The plan to cancel debts of 18 Highly Indebted Poor Countries (HIPC) reached by the Group of Eight finance ministers at their London meeting this past weekend brings very good news to Bolivia, Guyana, Honduras, and Nicaragua. As UK Chancellor of the Exchequer Gordon Brown said, this sets the stage for a new deal between the rich and poor countries of the world unfolding in the July G-8 summit. Under the deal, the World Bank, the International Monetary Fund, and the African Development Bank will immediately write off 100 percent of the money owed to them by 18 countries which have reached completion point as HIPCs. The total amount of money owed by these 18 countries to these institutions amounts to \$40 billion. No doubt, this goes a long way toward reducing the debt burden of the four countries of our region, which seriously impairs the governments' capacity to

carry out public policies. It is thus of importance toward implementing national sustainable development strategies and compatible with striving to achieve the Millennium Development Goals in Latin America and the Caribbean. Also important is the commitment of the G-8 to preserve the financial capacity of the multilateral institutions and to address the costs of the proposed debt cancellation."

**A** **Guest Comment: John Taylor:** "The debt cancellation in these four countries is a major breakthrough in discussions that have been taking place for the last year or so and will enable these countries to begin to focus

*Continued on page 4*

### PHOTO OF THE DAY



Peru has nominated Economy Minister Pedro Pablo Kuczynski, left, to succeed Enrique Iglesias, right, as president of the Inter-American Development Bank. See story on page 2.

*Photo: IDB.*

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## NEWS BRIEFS

**Copper Trades at Record High**

Copper traded Thursday at a record high of \$3,347 per ton on the **London Metal Exchange**, as a powerful earthquake in copper-rich Chile earlier in the week intensified concerns about market supply. Traders were said to be especially worried by the closure of the 115,000 tons-per-year Cerro Colorado copper mine in the wake of the 7.9-magnitude earthquake in northern Chile on Monday. Chile is the world's largest producer of copper. The metal accounted for 45 percent of Chile's exports last year.

Source: Reuters.

**Airbus Receives Jet Orders from Two Latin American Airlines**

European jetmaker **Airbus** on Thursday announced orders from two Latin American airlines. Airbus said Brazil's **TAM**—in a deal worth a total of \$2.6 billion—agreed to buy eight A350 aircraft, with an option to buy seven more, and 20 of its A320 jets, with an option to buy an additional seven. Mexico's **ABC Aerolineas** agreed to buy 10 A320s, with an option to buy 10 more, in a deal worth \$1.2 billion, Airbus said.

Source: company press release.

**Venezuela to Invest \$95 Million to Expand Fleet of New State Airline**

The Venezuelan government will invest \$95 million to acquire 10 new aircraft for new state-owned airline **Conviasa**. With the new planes, Conviasa, which launched operations four months ago, will have a fleet of 10 aircraft serving 42 national and international destinations, with a focus on flights to and from the Andean Community and Mercosur countries. The airline aims to sell tickets at 20 percent below the market price.

Source: ABN.

**Political News****Dirceu Resigns, Vows to Continue in Government**

Brazilian President Luiz Inacio "Lula" da Silva's powerful chief of staff Jose Dirceu resigned on Thursday amid a political uproar over a congressional bribe scandal, but said he would continue to work on behalf of the government, local news service Agencia Estado reported. Dirceu, who is accused of being aware of a scheme by the ruling Workers' Party to pay lawmakers 30,000 reais (\$US 12,000 per month) in exchange for political support



Photo: Agencia Brasil.

but doing nothing about it, said his resignation would become effective next Wednesday, at which point he would retake his former seat in the lower house of Congress as a deputy from Sao Paulo state. "I am going to continue in government. I do not feel like I am outside of government," Dirceu was quoted as saying. The longtime PT stalwart, who is credited with engineering the party's shift from the left to the political center that enabled Lula's election in 2002, said that starting next week he would "clarify ... the unfounded accusations" against him, the PT, and the Lula government. "I am not ashamed of anything I did in the government of President Lula," he said. According to Reuters, Dirceu will be replaced on an interim basis by his deputy, Swedenberger Barbosa.

**US Supports Smaller Expansion of United Nations Security Council**

A United States official said Tuesday the US supports a "modest expansion" of the United Nations Security Council, although he said broader reforms of the UN should be considered first, Reuters reported. "We see this debate as only one of the issues that has to be put forward. And we'd like to see progress on all the other issues before we turn our full attention to the UN Security Council debate itself," US Under

Secretary of State for Political Affairs Nicolas Burns was quoted as saying. Brazil, Germany, Japan, and India, are leading an effort to expand the Council from five permanent seats and 10 nonpermanent seats to 11 permanent seats and 14 nonpermanent seats. However, Burns said the US supported a "modest expansion" of the Council. "In addition to our likely support for two or so new permanent members, we will also support two or three additional nonpermanent seats." Burns said the US supported Japan's bid for a permanent seat, but did not name any other countries. Diplomats say Washington may also support India, but is opposed to Germany. Brazil has been lobbying for a permanent seat on the Security Council as part of its more ambitious foreign policy strategy under President Luiz Inacio "Lula" da Silva [Editor's note: see related Q&A in the May 26, 2005 issue of the *Latin America Advisor*]. The existing five permanent seats on the Council have been occupied by the major victors of World War II—Britain, China, France, Russia, and the United States—since the United Nations' creation, with all five permanent members having veto power. The latest proposal by Brazil, Germany, Japan, and India would postpone consideration of veto rights for new permanent Council members for 15 years.

**Economic News****Peru Nominates Economy Minister Pedro Pablo Kuczynski to Head IDB**

Peru has nominated Economy Minister and Wall Street darling Pedro Pablo Kuczynski to succeed the retiring Enrique Iglesias as head of the Inter-American Development Bank, President Alejandro Toledo said Thursday, according to Reuters. "Peru's candidate for the presidency of the Inter-American Development Bank is Pedro Pablo Kuczynski," Toledo was quoted as telling reporters. Kuczynski said he did not know when he would have to resign as economy minister to seek the top post at the IDB, but said "I can stay here [as minister] until August or September with no problem." Kuczynski has also been mentioned as a possible can-

didate in Peru's 2006 presidential election, although he has not given any indication of whether he will run. Iglesias announced his resignation, effective September 30, on May 31. The 75 year-old Iglesias, who has been IDB president for 17 years, plans to head a new, 22-member Secretariat of Ibero-American nations to promote cooperation between Spain, Portugal, and their former colonies in Latin America. Besides Kuczynski, top contenders to succeed Iglesias as the Bank's fourth president since its founding in 1959 include Brazilian Joao Sayad, the IDB's vice president for finance and administration, and Colombia's ambassador to the United States, Luis Alberto Moreno, according to Reuters. [Editor's note: see a related Q&A in the June 7, 2005 issue of the *Latin America Advisor*.]

### Proposed Reform Bill in Venezuela Would Lower Central Bank Reserves

A proposed change to a law governing Venezuela's Central Bank would limit the Bank's international reserves, allowing extra funds to be used for social projects, improving the country's debt profile, and other government spending initiatives, Reuters reported on Thursday. According to the reform proposal, a special development fund would be created with some of the proceeds from Venezuela's oil exports that currently go to the Central Bank's coffers. "[The fund will only be used .. for financing real productive investment projects, education and health, improving the public debt balance and profile, and for special strategic cases," the reform proposal states, according to Reuters. Venezuela's National Assembly is scheduled to take up the bill next week. President Hugo Chavez has made repeated calls for the Central Bank to surrender part of its reserves to finance his government's social projects. The Bank's reserves have grown to more than \$28 billion amid high world prices for Venezuela's number-one export, oil. The reform bill to be considered by lawmakers suggests that \$20 billion is an "adequate" level of foreign reserves. Some \$5 billion of existing reserves would be transferred to the government gradually for deposit into the special development fund.

## Capitol Hill Watch

*A weekly look at US congressional activity on Latin America*

### House, Senate Committees Approve Central American-DR Trade Pact

The House took an initial step in passing a divisive free trade accord with five Central American countries and the Dominican Republic (CAFTA-DR) on Wednesday when the Ways and Means Committee approved the pact by a vote of 25-16. The draft bill includes a requirement for regular reports on whether the Central American countries are improving standards for the protection of workers' rights. CAFTA-DR faces a tough battle in the House amid intense opposition from US labor unions, the sugar industry and some textile companies. In the Senate, where CAFTA-DR faces less opposition and is expected to pass, the Finance Committee narrowly approved a similar set of recommendations on Tuesday. "We have a lot of work to do on the floor of the House and the Senate, but we have cleared two very important hurdles this week," US Trade Representative Rob Portman said on Wednesday. Most US companies and agricultural groups support the pact due to the expanded market for US goods Central America would provide. Honduras, Guatemala and El Salvador have approved CAFTA-DR, while Costa Rica, Nicaragua and the Dominican Republic have not.

Source: Reuters, The New York Times.

### Burton, Souder Urge Research of "Revolutionary" Anti-Drug Herbicide

Reps. Dan Burton and Mark Souder, both Indiana Republicans, on Thursday called for research into a new herbicide they said could "revolutionize" the war on drugs. In a joint press release, Burton and Souder said scientists have recently begun to study the possibility of manipulating "mycoherbicides"—naturally occurring plant fungi that are currently used for weed control—to combat certain drug crops under specific conditions. "If proven to be successful, mycoherbicide could revolutionize our drug eradication efforts," said Souder, who is chairman of the House Drug Policy Committee. "Mycoherbicide research needs to be investigated, and we need to begin testing it in the field. The potential benefit of these fungi is tremendous." Burton, chairman of the House International Relations Subcommittee on the Western Hemisphere, submitted an amendment to the Office of National Drug Control Policy Reauthorization Act (ONDCP Act) to urge study of mycoherbicides. Burton's amendment instructs the Director of the ONDCP "to present Congress—within 90 days of the law's enactment—a plan of action to [ensure] that an expedited, complete, and thorough peer review of the science of mycoherbicide as a means of illicit drug crop elimination is conducted by the appropriate government scientific research entity." In related news, the Foreign Operations Subcommittee of the House Appropriations Committee rejected Colombia's request for an additional \$150 million to strengthen its anti-coca spraying program. However, the Subcommittee did approve the Bush administration's request for \$463 million for Plan Colombia. The US has given Colombia some \$3 billion under Plan Colombia, mostly in military aid.

Source: Office of Rep. Dan Burton, The Miami Herald.



**Featured Q&A***Continued from page 1*

more on economic growth and economic development. The proposal is focused on the HIPC countries, which have been successful in making reforms and thus far have been receiving 100 percent cancellation from the United States in their debt. What this new agreement does is provide 100 percent cancellation of the debt to the World Bank, and this is really a tremendous opportunity for the governments and the countries to take the actions to reduce poverty and raise growth. By reducing this debt even further, it will make the countries more attractive for foreign investment. Also, part of the deal is that these countries will receive grants rather than loans in the future from the World Bank, and that will further make the aid more effective because the grants can be focused on particular projects, and the results can be measured. So it is the combination of the cancellation of the debts from the World Bank and the move toward grants by the World Bank that will better enable these countries to grow."

**Guest Comment: John Williamson:** "The big dispute between Britain and the US prior to the G-7 finance ministers meeting was how to finance the debt relief, not whether to nominally forgive the debts. The UK wished to have rich countries reimburse the World Bank for forgiving the HIPCs' debts and the IMF sell some gold to pay for the IMF forgiving its debts, while the US wished to have the IFIs pay for debt forgiveness out of their own resources, which would reduce the amount those institutions were able to lend in the future and thus would really have the poor pay to forgive their own debts. The 'compromise' was to have the rich reimburse the World Bank for the first three years and maybe some more later and leave the IMF to scramble to find its money from its own resources. Even for the first three years the US has indicated that it plans to divert money that would otherwise have gone to aid to the World Bank so that there will be no additional resources for the poor. This looks close to game, set, and match for

the US. Tough luck on Bolivia, Guyana, Honduras, and Nicaragua."

**Guest Comment: Ana Eiras:** "Economic freedom, good government, and the rule of law are the three basic elements of economic growth and development. None of the countries qualifying for debt relief have free economies, and all suffer from corruption and weak rule of law. In such a context, what are the odds that the flexibility afforded by debt relief will be used to create economic opportunity and not to line the pockets of the ruling elite? Sustained growth will be difficult for these countries to achieve as more foreign aid follows debt relief, leaving them without any incentives for economic reform—just as before. Debt relief is a band-aid solution to a hemorrhaging problem. Rock star Bono, a strong advocate of debt relief, could do these poor countries a service by illustrating how his own story—one of entrepreneurship, competition, and ultimately success—was possible only because he grew up in a country, Ireland, that transformed itself by opening markets, respecting the rule of law, and creating opportunities, rather than increasing its dependency on foreign aid. Eliminating agricultural subsidies that support uncompetitive rich country farms at the expense of poor farmers would go a long way toward providing many of the world's poor with real economic opportunity."

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**Latin America Advisor**

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**Latin America Advisor** is published every business day by the Inter-American Dialogue  
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Washington, DC 20036  
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